

BRYAN COLLEGE STATION
Economic Development Corporation

December 16, 2002

Mayor Ron Silvia
City of College Station
P. O. Box 9960
College Station, TX 77842

Dear Mayor Silvia,

On December 11, 2002, the Bryan-College Station Economic Development Corporation Board of Directors voted to make two amendments to its Economic Development Guidelines. Those amendments are outlined below:

Amendment One—Addition of a New Incentive Category w/Sunset Clause

The EDC Board of Directors approved addition of a new category aimed to make incentives available for local companies desiring to expand yet not large enough to qualify for the current Guidelines' minimum requirements. There will be an annual \$75,000 cap on the program with a \$15,000 cap on each deal. See *"Proposed New Primary Community Incentives Category"* attached for further details.

The EDC Board approved this amendment for a one-year test period, January 1 – December 31, 2003. At the end of this time, it is to be reviewed for its merits and consideration of future use.

Amendment Two—Provision to Incent Commercial Realtor Commissions for Referrals

In an effort to get local commercial realtors more actively involved in referring prospects to the EDC, the Board of Directors approved including funds in applicable Community Incentive Proposals to pay commissions for referring realtors. The proposed commission was set at 5%. The commission amount would be calculated using the per-acre land value used in the economic impact analysis. A registration process will document the referring realtor/broker and the date of the prospect referral. See *"MEMORANDUM Subject: Commercial Realtor Commissions for Referrals"* attached for further details.

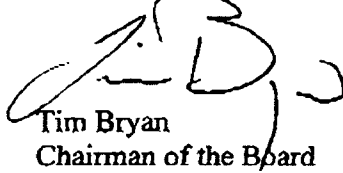
A copy of the current Guidelines is attached for your convenience. Please note, they were last revised in June of 2001 and need to be updated again to reflect changes in the EDC and community. This will be done over the next few months and will be submitted separately for appropriate approval at a later date. In the meantime, it is the EDC Board of Directors' wish to implement the two amendments outlined above as soon as possible given the nature of their potential contribution to the community.

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The EDC Board of Directors hereby submits and requests the approval of the council to implement these changes. Please feel free to contact me at 821.1100 with questions. We request notification of when these issues will be considered so that we could have EDC representation available to answer any questions.

Respectfully submitted,



Tim Bryan
Chairman of the Board

Attachments:

Bryan-College Station Economic Development Guidelines
Proposed New Primary Community Incentives Category
MEMORANDUM Subject: Commercial Realtor Commissions for Referrals

PROPOSED NEW PRIMARY COMMUNITY INCENTIVES CATEGORY

Issue:

A large number of Brazos County businesses that qualify as a BCS EDC targeted industry are small businesses. As a result, when they expand it is typically not large enough for the company to meet the minimum requirements, i.e. \$250,000 in new annual gross payroll or \$2,000,000 in new capital investment, as outlined in the BCS EDC's *Economic Development Guidelines*. These companies, some of which have been in the community for decades, are active, viable businesses making vital contributions to the local economy. The BCS EDC staff proposes a solution to fill this incentives-eligibility gap that would make these small businesses eligible for a modest amount of performance-based financial assistance.

Proposed Solution:

The BCS EDC staff proposes adding a new category to the Primary Community Incentives on page 6 of the BCS EDC's *Economic Development Guidelines*. The new category would only be for performance-based financial assistance and would be limited to a maximum of \$15,000. Because this is a relatively small amount of assistance, it is proposed that a one-time payment be made to the company for the total amount as opposed to the traditional multiple payments. In exchange for the one-time payment, the company would be required to enter into a performance agreement as is the current standard operating procedure at the BCS EDC.

It is proposed that the only criteria that should be eligible for this new incentives category should be expansions that create new capital investment. The reason for this limitation is that, as shown below, the amount of new capital investment will be the number that is used to calculate the amount of financial assistance that a company is eligible for and also because new capital investment is a much more tangible investment in the community. Furthermore, if new annual gross payroll were an eligible criterion, then targeted industry companies would be requesting financial assistance for every new job that they created. The new capital investment can include new construction as well as new equipment.

Method of Deriving Amount of Financial Assistance:

The BCS EDC staff proposes that the amount of new capital investment be the basis for calculating the amount of financial assistance that an expanding company may receive. Calculations would be made using the new capital investment amount to determine the value of tax abatements from the city and the county. This total would be the amount that is proposed to the company. It is essentially cash in lieu of tax abatement. The minimum level of tax abatement as found in the BCS EDC's *Guidelines* would be used for the calculations. This minimum level is: Year 1 – 70%; Year 2 – 50%; Year 3 – 30%; Year 4 – 20%; and Year 5 – 10%.

As an example, below are the calculations for a Bryan company that is proposing a \$750,000 new capital investment.

- \$750,000 new capital investment
- \$1.0564 / \$100 valuation (combined current Bryan and Brazos County tax rates)
- \$7,923 estimated city and county taxes on the \$750,000 new capital investment

$$\begin{aligned}
 \$7,923 \times 70\% &= \$ 5,546 \\
 \$7,923 \times 50\% &= \$ 3,962 \\
 \$7,923 \times 30\% &= \$ 2,377 \\
 \$7,923 \times 20\% &= \$ 1,585 \\
 \$7,923 \times 10\% &= \$ 792 \\
 &\underline{\$14,262}
 \end{aligned}$$

The company would be offered a one-time payment of \$14,262 for its \$750,000 new capital investment. The same type of offer would apply to a College Station company. The only exception would be that the College Station tax rate would be substituted for the Bryan tax rate in making the calculations. Since new capital investment can include new construction and new equipment, the trigger mechanism for the delivery of the incentive payment would be:

- 1.) when the company completes construction and occupies the new space
or
- 2.) puts the new equipment into full-time operation
or
- 3.) if both are involved when the last new capital investment item is completed.

Limitation:

It is proposed that the maximum amount that a company can receive under this new category level be capped at \$15,000. If the above calculations had resulted in a total that exceeded \$15,000, then the company would be offered a one-time payment of \$15,000. Under the current BCS EDC *Guidelines*, financial assistance proposals of up to \$10,000 can be approved by the BCS EDC President/CEO and Board Chairman, but proposals that are \$10,001 to \$25,000 must be approved by the BCS EDC Executive Committee.

Since it is not known at this time how many of these small proposals may be presented each year for consideration, it is suggested that the BCS EDC Board adopt a limit of \$75,000 per year for these small proposals. Also, since it is not known how effective this new incentive level will be, it is proposed that the BCS EDC Board adopt this new incentive category for a one-year trial period and that after a year it be evaluated to determine whether it should be adopted long-term or terminated.

Each company must submit to the BCS EDC's due diligence process and enter into a performance agreement contract with the BCS EDC if the proposal is approved. These stipulations may inadvertently create a minimum proposal limit because a company will probably not want to submit to the due diligence process and contract requirements for a small amount of financial assistance.

MEMORANDUM

To: BCS EDC Board Members
From: Roland Mower, President/CEO
Subject: Commercial Realtor Commissions for Referrals
Date: December 4, 2002

In an effort to get the local commercial realtors more actively involved in referring prospects to the BCS EDC, it is proposed that the BCS EDC's *Economic Development Guidelines* be revised so that funds can be included in an incentive proposal that would cover the sales commission on deals referred to the BCS EDC by local real estate agents which will go into one of our local public business/industrial parks. It is proposed that the commission be set at 5% and that the commission amount be calculated using the per acre land value that is used in the economic impact analysis.

At the December 4th Executive Committee meeting, it was recommended that this proposal be placed on the December 11th BCS EDC Board meeting agenda for their action.

If approved by the Board, the BCS EDC staff will develop a registration process so that it can be documented who the referring realtor or broker is and the date of the prospect referral.